

## German inflation brings good news for ECB

Amidst speculation about the ECB's possible reaction to the stronger euro, the slight increase in inflation should bring some relief



Source: iStock

Based on the results of six regional states, German headline inflation increased to 1.8% YoY in August, from 1.7% YoY in July. The fourth consecutive rise of headline inflation. On the month, German prices rose 0.1 % MoM. Based on the harmonised European definition (HICP), and more relevant for ECB policy making, headline inflation accelerated to 1.8% YoY, from 1.5% following three months of near-stable inflation data.

Looking at the available components at the regional level shows today's increase was mainly driven by base effects from higher energy and food prices. Measures of core inflation remained stable. At the same time, the end of the holiday season pushed down inflation in leisure costs, and the ongoing decline in communication costs and lower prices for services continued to at least partly offset higher prices for consumer goods.

However, these latest figures could represent an inflation peak for this year. In the months ahead, cyclical factors like a stronger euro and base effects from lower energy prices, but also structural factors like increased competition in the service sector on the back of digitalisation, should again

push down headline inflation.

---

*The ECB will do everything it can to avoid unwarranted tightening of financial conditions*

---

Ironically, for the ECB, today's German inflation data is good news, as it increases the likelihood that August inflation for the entire Eurozone, released tomorrow, will also show a small pickup. However, German inflation numbers will do little to hush the current discussion on the possible impact of the stronger euro on the ECB's tapering plans and the Eurozone in general.

In our view, next week the ECB will probably want to play down the possible negative impact from the recent euro appreciation on both Eurozone growth and inflation, stressing strong domestic demand and low-interest rates. For the time being, the ECB will try to present the stronger euro as an achievement rather than a problem.

When preparing its game plan for tapering, the ECB will do everything it can to avoid what it often refers to as "unwarranted tightening of financial conditions". 'Dovish tapering' and 'tapering is not tightening' should be the leitmotifs of the ECB's next steps.

## Author

### Carsten Brzeski

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

## Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security

discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.